

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02 OPIC-03
CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 /089 W
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R 261451Z JAN 77
FM AMEMBASSY TEL AVIV
TO SECSTATE WASHDC 4592

C O N F I D E N T I A L TEL AVIV 0608

E.O. 11652: GDS
TAGS: EFIN, IS
SUBJ: 1977 BUDGET

REF: TEL AVIV 560, TEL AVIV 571

1. EMBOFFS HELD DISCUSSION JANUARY 26 WITH MORDECHAI FRAENKEL, DEPUTY DIRECTOR OF THE BANK OF ISRAEL (BOI) RESEARCH DEPARTMENT AND LEADER OF THE JOINT BOI-MINISTRY OF FINANCE TASK FORCE ON THE 1977 BUDGET. ACCORDING TO FRAENKEL, THE MINISTRY OF FINANCE REPRESENTATIVES JOINED THE TASK FORCE ONLY TWO WEEKS BEFORE THE BUDGET PRESENTATION AND IMMEDIATELY ANNOUNCED THAT THEY CONSIDERED THE BUDGET TO BE A POLITICAL DOCUMENT. THE BOI RESISTED ACCEPTING THE FINANCE MINISTRY PROJECTIONS AT FACE VALUE AND INSTEAD TRIED TO RECONCILE THEM WITH THE BOI'S OWN PROJECTIONS. IN THE END THE BOI AGREED TO A CONDITIONAL JOINT FORECAST OF 1977 PERFORMANCE BUT ITS CONCURRENCE WAS GIVEN ONLY WITH THE UNDERSTANDING THAT THE FINANCE MINISTRY'S ASSUMPTIONS FORM THE BASIS OF THE DORECAST, I.E., POLICIES STATED IN THE BUDGET AND EXISTING WAGE AGREEMENTS WOULD BE STRICTLY IMPLEMENTED. OTHERWISE, BOI BELIEVES INFLATION WILL EXCEED 30 PERCENT THIS YEAR.

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2. FRAENKEL NOTED THAT THE IL 5 BILLION PROJECTED DEFICIT DID NOT INCLUDE THE PROBABLE DEFICITS OF GOVERNMENT-OWNED CORPORATIONS AND THAT A PROPER ACCOUNTING FRAMEWORK WOULD SHOW A TOTAL LIQUIDITY INJECTION OF IL 8 BILLION BY THE GOVERNMENT. HE ALSO CAUTIONED THAT THE \$800 MILLION 1976 BALANCE OF PAYMENTS IMPROVEMENT WAS PARTIALLY DUE TO NON-RECURRING

FACTORS, IN PARTICULAR A DELAY IN DEFENSE IMPORTS AND AN INVENTORY DRAW-DOWN OF IMPORTABLES. THE IMPROVEMENT DUE TO ENDOGENOUS FACTORS WOULD AMOUNT TO \$250-300 MILLION.

3. COMMENT: THE POLITICAL NATURE OF THE BUDGET CLEARLY INFLUENCED FINANCE MINISTRY PROJECTION TO BE MORE OPTIMISTIC THAN THE RESULTS FROM THE PARTLY ECONOMETRIC FORECASTS OF THE BOI. AT THE SAME TIME THE FINANCE MINISTRY OFFICIALS DEFEND VALIDITY OF THEIR FORECASTS ON GROUNDS THAT, WHILE OPTIMISTIC, THEIR FORECASTS FALL WITHIN ACCEPTABLE CONFIDENCE LIMITS. WE ARE INCLINED TO AGREE WITH BOI'S MORE PESSIMISTIC OUTLOOK.
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Message Attributes

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